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TMS WEALTH MANAGEMENT CONFERENCE SOUTHWEST MISSISSIPPI COMMUNITY COLLEGE SEPTEMBER 26, 2014

FEDERAL AND LOUISIANA TAX CONSIDERATIONS BRUCE HARRELL, CPA

Bio:

Bruce Harrell, CPA, is a native to the area, and has been practicing public accountancy, in the TMS area since the 1970's. He and his firm are licensed to practice in both LA and MS. During this period he has been involved with many farmers, landowners, and oil and gas clients. He is a land and timber owner himself. He plans to cover the many considerations that taxpayers should be aware of, and plan for, as they begin to receive income from the TMS. He will give an overview of the federal and state tax issues you might need to be aware of, and even give some examples of what he has experienced as the activity of TMS has affected his client base and himself.

DISCLAIMER

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Facts and Circumstances must be considered and accurate to get the right and best outcome.

Quote by: Judge Learned Hand

(1872-1961), Judge, U. S. Court of Appeals

Source: in the case of Gregory v. Helvering 69 F.2d 809, 810 (2d Cir. 1934), aff'd, 293 U.S. 465, 55 S.Ct. 266, 79 L.Ed. 596 (1935)

"Anyone may arrange his affairs so that his taxes shall be as low as possible; he is not bound to choose that pattern which best pays the treasury. There is not even a patriotic duty to increase one's taxes.

Over and over again the Courts have said that there is nothing sinister in so arranging affairs as to keep taxes as low as possible. Everyone does it, rich and poor alike and all do right, for nobody owes any public duty to pay more than the law demands."

Considerations:

Planning vs. After the Fact

Many Roles of the CPA and Tax Advisor

Team of CPA Tax Advisor, Bankers, Attorneys, and Investment Advisors, Agents, Handlers, Etc.

IRS Office of Professional Responsibility

Business, Financial, Governmental Assistance and other considerations vs. Tax Considerations

Retirement Plans

Business- Making the best overall deal for now and in the future.

Financial- Risk and Rate of Return

Governmental Assistance- Social Security, Veterans Benefits, Governmental Allowances, Etc.

Timing of Income and Deductions

Sale of Oil and Gas Mineral Interest- Capital Gains and Tax Free Exchanges

Prevent Costly Mistakes

Source Documents- Forms W-9 and Forms 1099. Plan to be sure these are going to the correct taxpayer(s).

Preparing and Paying your Taxes – Withholding vs. Estimated Taxes

Income and Deductions from Oil and Gas Mineral Leases, Rentals and Royalties, and Capital Gains Treatment on Sale of Mineral Interests

Types of Entities and Types of Tax Returns

Entities-Individuals, Corporations, LLC's (Limited Liability Companies), Partnerships, Trusts, and Estates. Other variations could be Family Partnerships, Family Corporations, Family LLC's, etc.

Types of Returns-Individual, Partnerships, S Corporations, C Corporations, Trusts, and Estates. Most of these will elect to be pass-through entities, with the income taxes being paid at the individual level.

Other Taxes and Elder Care:

Gift and Estate Taxes- Be careful what you give. Basis should not be overlooked in making gifts. Gifts use up part of the Unified Estate and Gift Tax Credit, but the donee only gets a carryover basis from the donor. Be sure there is no substantial difference in the two values. Without gifts, the heirs receive a stepped up basis to Fair Market Value at date of death or possibly an alternate valuation date. If there will be no estate or inheritance taxes on the estate, it might be more favorable to receive property by inheritance rather than by gifts.

Consider the future uncertainty of Estate and Gift Tax Exclusions. The exclusions may not always be over the \$5 million plus for single and \$10 million plus for married, as it is now.

Severance Taxes: - Paid by Producer**Income for Rentals on Oil and Gas Leases-Reported by Individuals on Schedule E of Form 1040 (Based Primarily from Forms 1099)**

Rentals Received from Oil and Gas Leases

Income from Oil and Gas Royalties from Producing Wells

Gross Income less Severance Taxes (Paid by the Producer)

Depletion Deduction on Gross Income from Royalties - Percentage Depletion Allowance

Under percentage depletion, the deduction for the recovery of one's capital investment is a fixed percentage of the gross income (sales revenue) from the sale of the oil or gas. For oil and gas royalty owners, percentage depletion is calculated using a rate of 15% of the gross income based on your average daily production of crude oil or natural gas, up to your depletable oil or natural gas quantity. An attractive element of percentage depletion is that the cumulative depletion deductions may be greater than the capital amount spent by the taxpayer to acquire the property.

Taxable Income Limit (On Percentage Depletion Allowance)

There is a taxable income limit for oil and gas royalty owners. Your annual deduction for percentage depletion is limited to the smaller of the following:

100% of your taxable income from the property figured without the deduction for depletion

65% of your taxable income from all sources, figured without the depletion allowance.

More specific details on this topic can be found in IRS Publication 535.

Sale of Oil and Gas Mineral Interests – Capital Gains and Tax Free Exchanges (Deferrals):**Capital Gains**

Capital gains taxes are imposed on the profits made by an owner when an asset is sold for more than the purchase price. Such capital gains taxes apply not only to real estate, but also to royalty or mineral rights interests. The capital gains tax rate is normally less than the rate of ordinary income.

If Sales of Oil and Gas Minerals don't qualify for Capital Gains treatment, the income could be ordinary income subject to 15% depletion.

Cannot be Dealer (one who buys and sells mineral interests) to be taxed at capital gains rates.

Tax Free or Partially Tax Free Exchanges (Deferrals)

Section 1031 of the U.S. Tax Code, known as the "1031 exchange," provides a means for taxpayers to defer the capital gains tax on sales of royalty or mineral rights interests. The deferral occurs when the royalty or mineral rights interest is sold and "like-kind" property of equal or greater worth is purchased. Such property may include:

- Minerals
- Royalties
- Oil and gas working interests
- Real estate

Alternative Minimum Tax (Based On Income Thresholds and Tax Preference Items):

The Alternative Minimum Tax, or AMT, is a parallel tax system. Every taxpayer is responsible for paying the higher of the regular tax or the alternative minimum tax. The difference between the two tax calculations is calculated on IRS Form 6251 and using Instructions for Form 6251. If the alternative minimum tax is higher, the difference between the two tax rates is added to your Form 1040 as an additional alternative minimum tax.

The alternative minimum tax began as a way to ensure that taxpayers pay at least a minimum amount of tax. The AMT has a completely different set of calculations than the regular tax. For the regular tax, you add up your total income, subtract out various deductions and personal exemptions, then calculate the tax. Against the regular tax you can claim various credits to reduce your tax even further. The AMT, however, does not allow the standard deduction, personal exemptions, or certain itemized deductions. Also some income which is not subject to the regular tax is added for AMT purposes. Your tax under AMT rules may be higher than your tax under regular tax rules.

AMT Exemption Amount for 2014

Indexed for inflation in Revenue Procedure 2013-35:

- \$52,800 for single and head of household filers,
- \$82,100 for married people filing jointly and for qualifying widows or widowers, and
- \$41,050 for married people filing separately.

AMT Adjustments (Tax Preference Items)

When calculating the alternative minimum tax, various adjustments are made. Some income is added which is not subject to the regular tax. Some deductions are adjusted downwards or eliminated entirely.

The following items may trigger an AMT liability: (Tax Preference Items)

- Itemized deductions for state and local taxes, medical expenses, and miscellaneous expenses
- Mortgage interest on home equity debt
- Accelerated depreciation
- Exercising (but not selling) incentive stock options
- Tax-exempt interest from private activity bonds
- Passive income or losses
- Net operating loss deduction
- Foreign tax credits
- Investment expenses

This list is not comprehensive, but reflects the typical adjustments I see that can trigger an AMT liability. Typically, the alternative minimum tax eliminates most or all of the regular tax savings from the above-mentioned deductions.

Medicare Tax:

2.9% Medicare tax on wages expanded to 3.8% for higher-income taxpayers

The United States government imposes a Medicare tax of 2.9% on wages received by an employee and on business or farming income earned by self-employed individuals. Starting in the year 2013, Medicare taxes were increased by an additional 0.9% to 3.8% for higher-income individuals.

The Medicare hospital insurance tax is paid half by employees through payroll deductions and half by the employer. Accordingly, employees pay a Medicare tax rate of 1.45% (half of the 2.9% rate).

Self-employed persons pay both halves of the Medicare tax since they are both the employee and the employer. However, self-employed persons are allowed to deduct half of the Medicare tax as an adjustment to income. Self-employed persons calculate and pay their Medicare tax when filing their personal tax return as part of the self-employment tax.

Additional Medicare Taxes for 2013 and Beyond

Starting in the year 2013, the Medicare tax was expanded. An additional Medicare tax of 0.9% applies to Medicare wages and to net self-employment income over a threshold amount. The threshold amounts are:

Additional Medicare Tax Thresholds

Filing status/Wages and/or Self-Employed Income in Excess of

Married Filing Jointly-\$250,000

Single or Head of Household or Qualifying Widow(er) - \$200,000

Married Filing Separately-\$125,000

Payroll Withholding Authorized in Anticipation of the Additional Medicare Tax

Employers are required to withhold an additional 0.9% on employee's wages in excess of the threshold amounts. Also, employers might not always know if an employee is subject to this additional Medicare tax. The additional Medicare tax will be calculated on an individual's personal income tax return, and any shortfall not covered by withholding will need to be paid by the individual. Employers, however, may be subject to penalties and interest for not withholding the additional Medicare tax.

Net Investment Income Tax (New for 2013 and After 3.8 Medicare Tax)-New Income Tax on High Income Taxpayers:

Starting with the year 2013, individuals are subject to the Unearned Income Medicare Contribution surtax of 3.8% on their net investment income. This surtax is also called the Net Investment Income Tax. This is a surtax in the sense that it is a tax responsibility in addition to the federal income tax.

The net investment income tax is a surtax at a rate of 3.8% on a base of income that is the lesser of one's:

- Modified adjusted gross income over the threshold amount, or
- Net investment income.

Who is Subject to the Net Investment Income Tax?

The Net Investment Income Tax is imposed on individuals, estates and trusts.

For individuals, the net investment income tax applies to U.S. citizens and resident aliens. The net investment income tax does not apply to non-resident aliens unless a non-resident alien elects to be treated as a resident of the U.S. for tax purposes.

The net investment income tax also applies to estates and trusts if the estate's or trust's adjusted gross income for the year exceeds the dollar amount at which the highest tax bracket begins. For the year 2014, the highest tax bracket for estates and trusts begins at \$12,150. This focuses on the net investment income tax for individuals.

When does the Net Investment Income Tax Apply?

The Net Investment Income Tax applies if modified adjusted gross income for the year exceeds the following thresholds:

Net Investment Income Tax Thresholds

Filing status/Modified Adjusted Gross Income

Married Filing Jointly or Qualifying Widow(er) - \$250,000

Single or Head of Household - \$200,000

Married Filing Separately - \$125,000

These threshold amounts are not indexed for inflation. These amounts will stay the same from year to year, unless Congress specifically changes these amounts through new legislation.

Modified Adjusted Gross Income

Modified adjusted gross income (MAGI) for the purpose of the net investment income tax is adjusted gross income for the year with the foreign earned income exclusion added back in, less any deductions that were disallowed under the rules for the foreign earned income exclusion.

Taxpayers who invest in controlled foreign corporations and passive foreign investment companies may need to make further modifications to adjusted gross income.

Net Investment Income

Net investment income consists of three categories of income and their associated deductions.

Category one:

- Interest,
- dividends,
- annuities,
- royalties, and
- rents (other than rents received as part of a trade or business).

Category two:

- Income derived from a trade or business that is passive income, or
- Income from a business trading financial instruments or commodities.

Category three:

- Net capital gains (except gains on property held in a trade or business).

Deductions that reduce net investment income are:

- Deductions related to producing rental and royalty income
- Deductions related to producing business income
- Penalty on early withdrawal of savings
- Investment Interest expenses
- Miscellaneous investment expenses
- The portion of state income tax that relates to net investment income
- Casualty and theft losses related to property that was sold or disposed of

Some of these deductions are already included in the investment income figures. Rental income, royalty income, business income and net capital gains will already be a net amount of income after deductions or losses have been taken into account.

Other deductions, however, aren't included in these net figures, and so they will need to be deducted against investment income to arrive at net investment income. These separate deductions include the

penalty on early withdrawal of savings, investment interest, investment expenses, state income tax allocated to investment income, and casualty and theft losses related to investment property.

Background

The Unearned Income Medicare Contribution Tax was legislated as part of the Health Care and Education Reconciliation Act of 2010, which along with the Affordable Care Act, reformed the health care market by requiring individuals to obtain health insurance or pay a tax penalty. This tax was included as a revenue raiser in that legislation. At the time the legislation was passed, the Joint Committee on Taxation estimated that the Unearned Income Medicare Contribution Tax together with the Additional Medicare Tax would generate an additional \$20.5 billion in tax revenue in the year 2013, the first year that the surtax would be in effect. Over the ten-year period from 2010 to 2019, the Joint Committee on Tax estimates this surtax will generate an additional \$210.2 billion in tax revenues. (Source: JCX-17-10 [pdf].)

Where Does the Tax Revenue from the Unearned Income Medicare Contribution Tax Go?

The official name of the tax is the Unearned Income Medicare Contribution Tax. This suggests that the tax revenue will be used to fund Medicare. However, this does not appear to be the case. In their summary of the new Medicare surtax, the Joint Committee on Taxation points out, "No provision is made for the transfer of the tax imposed by this provision from the General Fund of the United States Treasury to any Trust Fund" (General Explanation Of Tax Legislation Enacted In The 111th Congress, JCS-2-11, pdf, page 363).

The IRS further reiterates this point in their proposed regulations interpreting this new tax law. In their preamble to the regulations, the IRS states, "Amounts collected under section 1411 are not designated for the Medicare Trust Fund" (REG-130507-11, pdf, page 5).

Thus the word "Medicare" in the name of this tax provision is misleading. A better name for this tax provision would be the Net Investment Income Tax, which is the phrase used by the IRS on tax form 8960.

Oil and Gas Tax Benefits-For Those Who Invest in Oil and Gas Wells:

Direct participation in oil and gas can generate several tax benefits. These benefits range from large up front deductions for intangible drilling costs (IDC), to tax credits for the development of certain types of tight formations. Deductions are generated mainly from the cost of non-salvageable equipment or services conducted during the drilling phase, testing, and/or completion of the well. The following is a synopsis of the tax benefits generated by direct participation oil and gas investments.

1. Intangible Drilling Costs (IDC): When an oil or gas well is drilled, several expenses may be deducted immediately. These expenses are deductible because they offer no salvage value whether or not the well is subsequently declared to be dry. Examples of these types of expenses would be labor, drilling

rig time, drilling fluids etc. IDCs usually represent 60 to 80% of the well cost. Investors usually put up the drilling portion of their investment before drilling operations commence, and the investor's portion of the intangible drilling costs is generally taken as a deduction in the tax year in which the intangible costs occurred. The accounting method adopted, however, could affect the deduction period.

2. Intangible Completion Costs: As with IDCs these costs are generally related to non-salvageable completion costs, such as labor, completion materials, completion rig time, fluids etc. Intangible completion costs are also generally deductible in the year they occur, and usually amount to about 15% of the total.

3. Depreciation: As opposed to services and materials that offer no salvage value, equipment used in the completion and production of a well is generally salvageable. Items such as these are usually depreciated over a seven year period, utilizing the Modified Accelerated Cost Recovery system or MACRS. Equipment in this category would include casing, tanks, well head and tree, pumping units etc. Equipment and tangible completion expenses generally account for 25 to 40% of the total well cost.

4. Depletion Allowance: Once a well is in production, the participants in the well are allowed to shelter some of the gross income derived from the sale of the oil and/or gas through a depletion deduction. Two types of depletion are available, cost and statutory (also referred to as percentage depletion). Cost depletion is calculated based upon the relationship between current production as a percentage of total recoverable reserves. Statutory or percentage depletion is subject to several qualifications and limitations. This deduction will generally shelter 15% of the well's annual production from income tax. For "stripper production" (wells producing 15 barrels/day or less), the depletion percentage can be up to 20%.

5. Tax Credits: Congress has enacted several tax credits in relation to oil or natural gas production. The enhanced oil recovery credit is applied to certain project costs incurred to enhance a well's oil or natural gas production. This credit is up to 15% of the costs incurred to enhance production. The non-conventional source fuel credit provides for a \$3 per barrel of oil equivalent credit for production from the so called qualified fuels. Qualified fuels include oil shale, tight formation gas, and certain synthetic fuels produced from coal.

The Alternative Minimum Tax (AMT):

Historically the tax benefits from oil and natural gas production could potentially present the possibility for taxation under the Alternative Minimum Tax (AMT). In the early 1990's however, Congress provided some tax relief for "independent producers". An independent producer was defined as an individual or company with production of 1,000 barrels per day or less. Although there is still the potential for AMT taxation for excess IDCs, percentage or statutory depletion is no longer considered a preference item.

Lease Operating Expense:

This expense covers the day to day costs involved with the operation of a well. The expense also covers the costs of re-entry or re-work of an existing producing well. Lease operating expenses are generally deductible in the year incurred, without any AMT consequences.

Conclusion - For Those Who Invest in Oil and Gas Wells:

As is evident from this discussion, the tax benefits generated by a direct participation in oil and/or natural gas are substantial. The immediate deduction of the intangible drilling costs or IDCs is very significant, and by taking this up-front deduction, the risk capital is effectively subsidized by the government by reducing the participant's federal, and possibly, state income tax. Each individual participant, of course, should consult with his/her tax advisor. Always check with your tax advisor to be sure some of the above provisions have not expired, been extended, or new incentives have been created.

LOUISIANA INCOME TAX CONSIDERATIONS:

What type of return-Resident, Non-Resident, or Part Year Resident

Nexus determines in what state the income was earned and should be taxed.

Louisiana Individual Taxes are basically based on the Federal Gross Income less Adjusted Federal Taxes. Residents are given credit for taxes paid to another state.

Determination of Tax

The tax is determined using tax tables furnished by the Department of Revenue. The tax rate is applied in a graduated scale using the taxpayer's filing status and the taxpayer's Louisiana taxable income. The tax rates are 2%, 4%, and 6%, based on your filing status.

Questions????

ADVANCED TAX PLANNING & SUPPORT

Current as of November 21, 2013

2014

Income Taxes

2013				2014			
If Taxable Income Is:				If Taxable Income Is:			
Over	But Not More Than	The Tax Is	Of the Amount Over	Over	But Not More Than	The Tax Is	Of the Amount Over
MFJ							
\$ 0	\$ 17,850	\$ 0.00 + 10.0%	\$ 0	\$ 0	\$ 18,150	\$ 0.00 + 10.0%	\$ 0
17,850	72,500	1,785.00 + 15.0%	17,850	18,150	73,800	1,815.00 + 15.0%	18,150
72,500	146,400	9,982.50 + 25.0%	72,500	73,800	148,850	10,162.50 + 25.0%	73,800
146,400	223,050	28,457.50 + 28.0%	146,400	148,850	226,850	28,925.00 + 28.0%	148,850
223,050	398,350	49,919.50 + 33.0%	223,050	226,850	405,100	50,765.00 + 33.0%	226,850
398,350	450,000	107,768.50 + 35.0%	398,350	405,100	457,600	109,587.50 + 35.0%	405,100
450,000		125,846.00 + 39.6%	450,000	457,600		127,962.50 + 39.6%	457,600
MFS							
\$ 0	\$ 8,925	\$ 0.00 + 10.0%	\$ 0	\$ 0	\$ 9,075	\$ 0.00 + 10.0%	\$ 0
8,925	36,250	892.50 + 15.0%	8,925	9,075	36,900	907.50 + 15.0%	9,075
36,250	73,200	4,991.25 + 25.0%	36,250	36,900	74,425	5,081.25 + 25.0%	36,900
73,200	111,525	14,228.75 + 28.0%	73,200	74,425	113,425	14,462.50 + 28.0%	74,425
111,525	199,175	24,959.75 + 33.0%	111,525	113,425	202,550	25,382.50 + 33.0%	113,425
199,175	225,000	53,884.25 + 35.0%	199,175	202,550	228,800	54,793.75 + 35.0%	202,550
225,000		62,923.00 + 39.6%	225,000	228,800		63,981.25 + 39.6%	228,800
Head of Household							
\$ 0	\$ 12,750	\$ 0.00 + 10.0%	\$ 0	\$ 0	\$ 12,950	\$ 0.00 + 10.0%	\$ 0
12,750	48,600	1,275.00 + 15.0%	12,750	12,950	49,400	1,295.00 + 15.0%	12,950
48,600	125,450	6,652.50 + 25.0%	48,600	49,400	127,550	6,762.50 + 25.0%	49,400
125,450	203,150	25,865.00 + 28.0%	125,450	127,550	206,600	26,300.00 + 28.0%	127,550
203,150	398,350	47,621.00 + 33.0%	203,150	206,600	405,100	48,434.00 + 33.0%	206,600
398,350	425,000	112,037.00 + 35.0%	398,350	405,100	432,200	113,939.00 + 35.0%	405,100
425,000		121,364.50 + 39.6%	425,000	432,200		123,424.00 + 39.6%	432,200
Single							
\$ 0	\$ 8,925	\$ 0.00 + 10.0%	\$ 0	\$ 0	\$ 9,075	\$ 0.00 + 10.0%	\$ 0
8,925	36,250	892.50 + 15.0%	8,925	9,075	36,900	907.50 + 15.0%	9,075
36,250	87,850	4,991.25 + 25.0%	36,250	36,900	89,350	5,081.25 + 25.0%	36,900
87,850	183,250	17,891.25 + 28.0%	87,850	89,350	186,350	18,193.75 + 28.0%	89,350
183,250	398,350	44,603.25 + 33.0%	183,250	186,350	405,100	45,353.75 + 33.0%	186,350
398,350	400,000	115,586.25 + 35.0%	398,350	405,100	406,750	117,541.25 + 35.0%	405,100
400,000		116,163.75 + 39.6%	400,000	406,750		118,118.75 + 39.6%	406,750
Estate and Trusts							
\$ 0	\$ 2,450	\$ 0.00 + 15.0%	\$ 0	\$ 0	\$ 2,500	\$ 0.00 + 15.0%	\$ 0
2,450	5,700	367.50 + 25.0%	2,450	2,500	5,800	375.00 + 25.0%	2,500
5,700	8,750	1,180.00 + 28.0%	5,700	5,800	8,900	1,200.00 + 28.0%	5,800
8,750	11,950	2,034.00 + 33.0%	8,750	8,900	12,150	2,068.00 + 33.0%	8,900
11,950		3,090.00 + 39.6%	11,950	12,150		3,140.50 + 39.6%	12,150

2013 and 2014	≤ 12 months	> 12 months
10% - 15% tax brackets	ordinary rates	0%
25% - 35% tax brackets	ordinary rates	15%
39.6% tax bracket	ordinary rates	20%

Additional 3.8% tax on lesser of (1) net investment income or (2) excess of MAGI over threshold amount of \$250,000 (MFJ); \$125,000 (MFS); \$200,000 (Single, HOH).

Standard Deductions	MFJ	MFS, Single	HOH
2013	\$12,200	\$6,100	\$8,950
2014	\$12,400	\$6,200	\$9,100

Age 65 or older, or blind, add for each:
 • MFJ, MFS: \$1,200 (2013); \$1,200 (2014)
 • Single, HOH: \$1,500 (2013); \$1,550 (2014)

Personal Exemptions	2013	2014
All filers	\$3,900	\$3,950

	Phaseout Begins at AGI of:	
	2013	2014
MFJ	\$300,000	\$305,050
MFS	\$150,000	\$152,525
HOH	\$275,000	\$279,650
Single	\$250,000	\$254,200

2013	2014	2013	2014
\$ 0	\$ 50,000	\$ 0 + 15%	\$ 0
50,000	75,000	7,500 + 25%	50,000
75,000	100,000	13,750 + 34%	75,000
100,000	335,000	22,250 + 39%	100,000
335,000	10,000,000	113,900 + 34%	335,000
10,000,000	15,000,000	3,400,000 + 35%	10,000,000
15,000,000	18,333,333	5,150,000 + 38%	15,000,000
18,333,333		6,416,667 + 35%	18,333,333

	Credit	Phaseout Begins at MAGI of:		
		MFJ	MFS	Single, HOH
2013	\$1,000	\$110,000	\$55,000	\$75,000
2014	\$1,000	\$110,000	\$55,000	\$75,000

	Under age 19		
	First	Next	Amounts Over
2013	\$1,000	\$1,000	\$2,000
2014	\$1,000	\$1,000	\$2,000

• Under age 19 (or certain full-time students under age 24) with unearned income consisting solely of interest, dividends and CGD; and child's gross income is less than \$10,000 in 2013 and 2014 — use Form 8814 with parent's return.
 • If child files own return — use Form 8615 with child's return to calculate tax at parent's marginal rate.

Social Security

Base Provisional Income Amounts for Benefit Taxation	Taxable up to 50%	Taxable up to 85%
MFJ	\$ 32,000	\$ 44,000
Single, HOH	\$ 25,000	\$ 34,000
MFS	N/A	\$ 0

	2013	2014
Maximum Earnings Before Benefits Are Reduced		
Under full retirement age (FRA) (lose \$1 for every \$2 over limit)	\$ 15,120	\$ 15,480
Year FRA reached - months to FRA only (lose \$1 for every \$3 over limit)	\$ 40,080	\$ 41,400
Month FRA reached and later	No Limit	No Limit
Maximum Compensation Subject to FICA		
Social Security Tax	\$113,700	\$117,000
Medicare Tax	No Limit	No Limit

• 2013 & 2014 Social Security tax rate: 12.4% self-employed, 6.2% employees
 • 2013 & 2014 Medicare tax rate: 2.9% self-employed, 1.45% employees. Additional 0.9% tax on earned income exceeding \$200,000 (\$250,000 MFJ; \$125,000 MFS).

Qualified Retirement Plans

	2013	2014
Maximum elective deferral to retirement plans [e.g., 401(k), 403(b)]	\$ 17,500	\$ 17,500
Maximum elective deferral to SIMPLE IRAs	\$ 12,000	\$ 12,000
Maximum elective deferral to 457 plans of exempt employers	\$ 17,500	\$ 17,500
Limit on annual additions to SEPs	\$ 51,000	\$ 52,000
Limit on annual additions to defined contribution plans	\$ 51,000	\$ 52,000
Maximum annual compensation taken into account for contributions	\$255,000	\$260,000
Annual benefit limit under defined benefit plans	\$205,000	\$210,000
Threshold amount for definition of highly compensated employee	\$115,000	\$115,000
Threshold amount for definition of key employee in top-heavy plans	\$165,000	\$170,000

Catch-up Contribution Limit	2013	2014
401(k), 403(b), SARSEP and 457 plans	\$5,500	\$5,500
SIMPLE IRAs	\$2,500	\$2,500

Health Savings Accounts (HSAs)

Annual Contribution Limit	2013	2014
Individual	\$3,250	\$3,300
Family	\$6,450	\$6,550
Age 55 or older, add:	\$1,000	\$1,000

AMT Rates for Individuals

	MFJ (Married)		MFJ (Married)
	2013	2014	
Single, MFJ, HOH	\$0 - \$179,500	\$0 - \$182,500	26%
	\$179,501 or more	\$182,501 or more	28%
MFS	\$0 - \$89,750	\$0 - \$91,250	26%
	\$89,751 or more	\$91,251 or more	28%

	MFJ (Married)	
	2013	2014
Single/HOH	\$51,900	\$52,800
MFJ	\$80,800	\$82,100
MFS	\$40,400	\$41,050

ADVANCED TAX PLANNING & SUPPORT

Current as of November 21, 2013

2014

IRAs

Traditional and Roth IRA Contribution Limits		
	2013	2014
Under age 50 at year end	\$5,500	\$5,500
50 or older at year end	\$6,500	\$6,500

Modified Adjusted Gross Income (MAGI) Phaseout Ranges for Roth IRA Contributions		
	2013	2014
Married Filing Joint (MFJ)	\$178,000 - \$188,000	\$181,000 - \$191,000
Single, Head of Household (HOH)	\$112,000 - \$127,000	\$114,000 - \$129,000
Married Filing Separate* (MFS)	\$ 0 - \$ 10,000	\$ 0 - \$10,000

*shared residence

Traditional IRA Deductibility Rules				
Filing Status	Covered by Employer's Retirement Plan?	Modified AGI		Deductibility
		MAGI 2013	MAGI 2014	
Single, HOH	No	Any amount	Any amount	Full
	Yes	\$59,000 or less	\$60,000 or less	Full
		\$59,001 - \$68,999 \$69,000 or more	\$60,001 - \$69,999 \$70,000 or more	Partial None
MFJ	Neither spouse	Any amount	Any amount	Full
	Both spouses	\$95,000 or less	\$96,000 or less	Full
		\$95,001 - \$114,999 \$115,000 or more	\$96,001 - \$115,999 \$116,000 or more	Partial None
	One spouse (covered spouse)	\$95,000 or less	\$96,000 or less	Full
\$95,001 - \$114,999 \$115,000 or more		\$96,001 - \$115,999 \$116,000 or more	Partial None	
One spouse (non-covered spouse)	\$178,000 or less	\$181,000 or less	Full	
	\$178,001 - \$187,999 \$188,000 or more	\$181,001 - \$190,999 \$191,000 or more	Partial None	
MFS*	Neither spouse	Any amount	Any amount	Full
	Either spouse	Less than \$10,000 \$10,000 or more	Less than \$10,000 \$10,000 or more	Partial None

*shared residence

Education Incentive Limits and MAGI Phaseouts

Overall Education Savings Account Contributions			
		2013	2014
MFJ	Up to \$2,000	\$190,001 - \$220,000	\$190,001 - \$220,000
Others	per student	\$ 95,001 - \$110,000	\$ 95,001 - \$110,000
Qualified Tuition Program (Section 529 Plan) Contributions			
All filers	Set by plan	None	None
American Opportunity Credit (First four years of higher education)			
MFJ	Up to \$2,500	\$160,001 - \$180,000	\$160,001 - \$180,000
Single, HOH*	per student	\$ 80,001 - \$ 90,000	\$ 80,001 - \$ 90,000
Lifetime Learning Credit			
MFJ	Up to \$2,000	\$107,001 - \$127,000	\$108,001 - \$128,000
Single, HOH*	per return	\$ 53,001 - \$ 63,000	\$ 54,001 - \$ 64,000
U.S. Savings Bond Income Exclusion			
MFJ	Interest on redeemed bonds is tax-free	\$112,051 - \$142,050	\$113,951 - \$143,950
Single, HOH*		\$ 74,701 - \$ 89,700	\$ 76,001 - \$ 91,000
Student Loan Interest Deduction			
MFJ	Up to \$2,500	\$125,001 - \$155,000	\$130,001 - \$160,000
Single, HOH*	(above the line)	\$ 60,001 - \$ 75,000	\$ 65,001 - \$ 80,000
Higher Education Tuition and Fees Deduction			
MFJ	Up to \$4,000 per student	\$ 0 - \$130,000	Deduction not available in 2014
	Up to \$2,000 per student	\$130,001 - \$160,000	
	\$ 0	Over \$160,000	
Single, HOH*	Up to \$4,000 per student	\$ 0 - \$ 65,000	Deduction not available in 2014
	Up to \$2,000 per student	\$ 65,001 - \$ 80,000	
	\$ 0	Over \$80,000	

*MFS not eligible

Uniform Lifetime Table

For calculating required minimum distributions (RMDs) from qualified plans and traditional IRAs

Age	Distrib. Period	Age	Distrib. Period
70	27.4	93	9.6
71	26.5	94	9.1
72	25.6	95	8.6
73	24.7	96	8.1
74	23.8	97	7.6
75	22.9	98	7.1
76	22.0	99	6.7
77	21.2	100	6.3
78	20.3	101	5.9
79	19.5	102	5.5
80	18.7	103	5.2
81	17.9	104	4.9
82	17.1	105	4.5
83	16.3	106	4.2
84	15.5	107	3.9
85	14.8	108	3.7
86	14.1	109	3.4
87	13.4	110	3.1
88	12.7	111	2.9
89	12.0	112	2.6
90	11.4	113	2.4
91	10.8	114	2.1
92	10.2	115 and older	1.9

*at end of distribution year

Long-term Care (LTC) Insurance

Maximum LTC insurance premiums eligible for deduction

	2013	2014	2015	2016	2017
2013	\$360	\$680	\$1,360	\$3,640	\$4,550
2014	\$370	\$700	\$1,400	\$3,720	\$4,660

Qualified LTC contract per diem limit: \$320 in 2013, \$330 in 2014

Estate, Gift & GST Taxes

	2013	2014
Gift Tax Annual Exclusion	\$ 14,000	\$ 14,000
Estate and Gift Tax Exclusion	\$5,250,000*	\$5,340,000*
GST Tax Exemption	\$5,250,000	\$5,340,000

Maximum estate, gift and GST tax rate: 40% in 2013 and 2014

*plus the deceased spousal unused exclusion amount, if applicable

Saver's Tax Credit (2014)

Tax credit for contributions to employer retirement plans and IRAs. Maximum credit: \$2,000 (MFJ); \$1,000 (others)

	MFJ	MFS/Single	HOH
50%	Up to \$36,000	Up to \$18,000	Up to \$27,000
20%	\$36,001 - \$39,000	\$18,001 - \$19,500	\$27,001 - \$29,250
10%	\$39,001 - \$60,000	\$19,501 - \$30,000	\$29,251 - \$45,000
0%	Over \$60,000	Over \$30,000	Over \$45,000

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